

PINNACLE CANYON ACADEMY, INC.
FINANCIAL STATEMENTS
FOR YEAR-ENDED JUNE 30, 2006

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Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

Independent Auditors' Report

Board of Education
Pinnacle Canyon Academy

We have audited the accompanying statement of financial position of Pinnacle Canyon Academy (a nonprofit organization) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Canyon Academy as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Aycock, Miles & Associates, CPAs

November 14, 2006

Pinnacle Canyon Academy
Statement of Financial Position
June 30, 2006

	<u>June 30, 2006</u>
Assets:	
Current Assets:	
Cash	\$ 127,355
Accounts receivable	52,003
Total current assets	<u>179,358</u>
Noncurrent assets:	
Restricted cash (see note)	822,756
Fixed Assets:	
Land	5,000
Construction in progress	2,934,519
Buildings	381,580
Property & equipment	228,395
Accumulated depreciation	<u>(214,638)</u>
Total fixed assets	<u>3,334,856</u>
Total noncurrent assets	<u>4,157,612</u>
Total assets	<u><u>\$ 4,336,970</u></u>
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable	\$ 34,662
Accrued interest	67,085
Accrued payroll expenses	135,793
Short-term note payable	78,500
Current portion, long-term notes payable	<u>72,709</u>
Total current liabilities	388,750
Noncurrent liabilities:	
Notes payable	<u>3,677,291</u>
Total noncurrent liabilities	<u>3,677,291</u>
Total liabilities	4,066,041
Net assets:	
Unrestricted net assets	270,929
Temporarily restricted assets	-
Permanently restricted assets	<u>-</u>
Total	<u>270,929</u>
Total liabilities and equity	<u><u>\$ 4,336,970</u></u>

Pinnacle Canyon Academy
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Support:				
Federal grants	\$ -	\$ 432,276	\$ -	\$ 432,276
State grants	1,324,921	409,500	-	1,734,421
Local/other	<u>72,423</u>	<u>133,693</u>	<u>-</u>	<u>206,116</u>
	1,397,344	975,469	-	2,372,813
Revenues:				
Tuition	8,326	-	-	8,326
Interest	<u>279</u>	<u>-</u>	<u>-</u>	<u>279</u>
	8,605	-	-	8,605
Other:				
Restrictions satisfied by payments	<u>975,469</u>	<u>(975,469)</u>	<u>-</u>	<u>-</u>
Total support & revenue	2,381,418	-	-	2,381,418
Functional Expenses:				
K thru 9th grade education:				
Instruction	1,363,812	-	-	1,363,812
Operations and maintenance	319,886	-	-	319,886
Transportation	-	-	-	-
Food services	115,840	-	-	115,840
Administrative:				
Instruction support	319,895	-	-	319,895
Business	141,277	-	-	141,277
Interest expense	67,085	-	-	67,085
Central support	36,605	-	-	36,605
Non K-12 programs	<u>37,581</u>	<u>-</u>	<u>-</u>	<u>37,581</u>
Total expenses	<u>2,401,982</u>	<u>-</u>	<u>-</u>	<u>2,401,982</u>
Change in net assets before extraordinary items	(20,564)	-	-	(20,564)
Extraordinary Items:				
Grants for construction of school building	<u>118,423</u>	<u>-</u>	<u>-</u>	<u>118,423</u>
Change in net assets	97,859	-	-	97,859
Beginning net assets	<u>173,070</u>	<u>-</u>	<u>-</u>	<u>173,070</u>
Ending net assets	<u>\$ 270,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,929</u>

Pinnacle Canyon Academy
Statement of Cash Flows
For the year ended June 30, 2006

	<u>2006</u>
Cash Flows from Operating Activities:	
Increase in net assets	\$ (20,564)
Adjustments to reconcile change in net assets to cash flow:	
Depreciation	42,698
Grants	118,423
(Increase) decrease in accounts receivable	9,714
(Increase) decrease in other assets	-
Increase (decrease) in accounts payable	25,025
Increase (decrease) in accrued expenses	<u>100,882</u>
Total cash flow from operations	276,178
 Cash Flows from Investing Activities:	
Purchase of land & buildings	(3,194,856)
Purchase of equipment	<u>-</u>
Total cash flow from investments	(3,194,856)
 Cash Flows from Financing Activities:	
Loan proceeds	3,850,000
Cash deposited to escrow for construction and reserve	(822,756)
Loan payments	<u>(21,500)</u>
Total cash flow from financing activities	<u>3,005,744</u>
 Total increase (decrease) in cash	87,066
 Beginning cash	<u>40,289</u>
Ending cash	<u><u>\$ 127,355</u></u>

Supplementary Information: \$0 was paid in interest expenses and income tax.

Pinnacle Canyon Academy
Notes to the Financial Statements
June 30, 2006

NOTE A—NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities—Pinnacle Canyon Academy was formed in 1999. The Academy was organized by a group of parents, teachers, business professionals, and physicians to provide an educational opportunity in Carbon County that was not governed by the local School District and was not religious based. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or volunteering time in the classroom or with other needs the school may have as they arise. In addition to parental involvement, the school emphasizes the use of technology in the classroom.

Basis of Accounting—The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Contributions and Promises to Give—Contributions are recognized when the donor makes a promise to give to the Academy that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets even if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Academy uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At year-end, the Academy had no material promises receivable.

Contributed Services—During the years ended June 30, 2006, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services. The Academy receives hundreds of volunteer hours per year.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment—The Academy's policy is to capitalize property and equipment over \$5,000 beginning July 1, 2002. Lesser amounts are classified as operating supplies. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how

Pinnacle Canyon Academy
Notes to the Financial Statements
June 30, 2006

long those donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense for the year-end June 30, 2006 was \$42,698.

Financial Statement Presentation—The Academy has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Academy does not use fund accounting.

Contributions—The Academy has also adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes—The Academy is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments—The Academy has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. At year-end, the Academy did not have any investments that were applicable to SFAS No. 124.

Cash and Cash Equivalents—For purposes of the statements of cash flows, the Academy considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE B—RESTRICTIONS ON NET ASSETS

Unrestricted Assets—The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

Temporarily Restricted Assets—The temporarily restricted assets pertain to grants and funding that are restricted for particular educational programs. There was no material temporarily restricted asset balance at year-end.

Pinnacle Canyon Academy
Notes to the Financial Statements
June 30, 2006

NOTE C—RETIREMENT BENEFITS

The Academy provides a 401(K) retirement plan to its employees which allows eligible employees to make annual elective salary deferrals, expressed as a percentage of compensation. The Academy matches the annual elective contribution of the employee in an amount not exceeding 50% of the employees' salary deferral up to 3% of the employees' compensation. Employees contributed \$41,690 and the Academy contributed \$9,709 for the fiscal year ending June 30, 2006.

NOTE D—COMPENSATED ABSENCES

Compensated absences (accrued sick and personal leave time) have been accrued for eligible employees in the financial statements.

NOTE E—CASH AND CASH EQUIVALENTS

The Academy's cash is held mainly in one account with Eastern Utah Community Credit Union. The annual percentage interest earned was negligible. At June 30, 2006, the carrying balance was \$127,355 and the bank balance was \$133,333. Credit Union account insurance covers up to \$100,000. Thus, the Academy had \$33,333 cash balance at year-end uninsured.

NOTE F—RESTRICTED CASH

There are two elements to the Academy's restricted cash. At year ending June 30, 2006, the Academy had a total restricted cash of \$822,756. First, the Academy has unexpended loan proceeds held in a construction escrow account for \$747,756. Second, the Academy has established a restricted cash reserve account for U.S. Bank debt service requirements in the amount of \$75,000. U.S. bank holds both of these restricted cash balances.

NOTE G—CONSTRUCTION COMMITMENT

During late summer and fall of 2005, the Academy purchased property and buildings in Price, Utah for school facilities. At this site, the Academy is using an existing structure and has begun construction of another building to complement the existing structure. At June 30, 2006, the estimated cost to complete the project is an estimated \$900,000. The Academy has \$747,756 unexpended loan proceeds held in escrow for this construction project. The Academy expects to finance the remaining balance. The escrow balance is included on the balance sheet as restricted cash.

NOTE H—EXTRAORDINARY ITEMS

The academy received grants for the construction of a school building. Grants for construction are not in the ordinary course of business of the charter school.

Pinnacle Canyon Academy
Notes to the Financial Statements
June 30, 2006

NOTE I—LONG-TERM DEBT

In order to finance the construction of their school building, the Academy has borrowed from U.S. Bank and the U.S.D.A. a total of \$3,750,000 during the year-end June 30, 2006. No principal has been paid on these notes payable during the year. See details below of each loan below.

U.S. Bank Original note payable for \$1,750,000 fiscal year 2006; effective fixed interest rate of %7.55 (a variable interest rate that is tied to an interest rate swap which effectively fixes the rate at %7.55); payments monthly and matures May 31, 2026.

As collateral, U.S. Bank holds a promissory note and 1st trust deed on real estate (school buildings). The U.S.D.A. has also guaranteed 90% of the U.S. Bank loan. U.S. Bank requires three months payments held in reserve for the U.S. Bank loan and the U.S.D.A. loan (a total of about \$75,000). In addition to the restricted cash reserve, U.S. Bank has also set three annual covenants: first, a debt to tangible net worth ratio of 5.5 in 2006, 4.5 in 2007, 3.5 in 2008, and 3.0 thereafter; second, liquidity ratio of 1.05 (annual revenues + cash divided by annual budgeted expenses); and third, cash flow coverage of 1.1.

U.S.D.A. Original note payable for \$2,000,000 fiscal year 2006; fixed interest rate of %4.125; payments monthly and matures June 22, 2035.

As collateral, the U.S.D.A. rural development office has a promissory note and a 2nd position on the real estate (school buildings). The U.S.D.A. has also guaranteed 90% of the U.S. Bank loan. The U.S.D.A. requires a cash reserve to be accumulated beginning August, 2006 by restricting 10% of the monthly payment amount each month until a total of one year's payments are restricted (\$118,560).

<u>Cash Flow Requirements</u>				
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Sinking Fund</u>	<u>Total</u>
2007	\$ 72,709	\$ 207,669	\$ 10,868	\$ 291,246
2008	79,944	210,277	11,856	302,077
2009	85,171	205,001	11,856	302,028
2010	90,393	199,731	11,856	301,980
2011	95,964	194,109	11,856	301,929
2012+	<u>3,325,819</u>	<u>2,080,991</u>	<u>60,268</u>	<u>5,467,078</u>
Total	<u>\$ 3,750,000</u>	<u>\$ 3,097,778</u>	<u>\$ 118,560</u>	<u>\$ 6,966,338</u>

Pinnacle Canyon Academy
Notes to the Financial Statements
June 30, 2006

NOTE J—SHORT-TERM NOTE PAYABLE AND RELATED PARTY

The Academy borrowed \$100,000 from the Academy's Chief Executive Officer, Roberta Hardy, to assist in construction finance. The note is short-term, variable interest rate and is not secured. At year-end, the note balance was \$78,500. The Academy expects to repay the balance during the fiscal year-end June 30, 2007.

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Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Education
Pinnacle Canyon Academy

We have audited the financial statements of Pinnacle Canyon Academy (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pinnacle Canyon Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

November 14, 2006

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

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Utah State Compliance Report

Board of Education
Pinnacle Canyon Academy

We have audited the general purpose financial statements of Pinnacle Canyon Academy (a non profit charter school) for the year ended June 30, 2006, and have issued our report thereon dated November 14, 2006. Our audit included testing on the Academy's compliance with those specific major program compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Minimum School Program

The Academy received major State Assistance from the Utah State of Office of Education by means of minimum school program funding. Major assistance is required to be examined for specific grant requirements.

The management of Pinnacle Canyon Academy is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with applicable major grant specific requirements.

In our opinion, the Pinnacle Canyon Academy complied, in all material respects, with the major grant specific requirements for the year ended June 30, 2006.

Aycock, Miles & Associates, CPAs

November 14, 2006